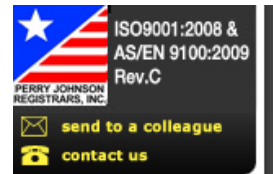




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June 1995

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I. COVER STORY: AT MIDYEAR, DISTRIBUTION, IS A HECTIC METALS ARENA

Metals distributors are a happy bunch just now: Order books are healthy, processing machinery is running steadily, and shipments are cascading out of warehouses.

Through the first several months of this year, PURCHASING MAGAZINE reckons that metal centers shipped 20% more aluminum, 15% more copper and brass, and 10% more steel than in the early months of last year. And remember, 1994 turned into a record-setting year for metals distribution.

Much has been written about the reemergence of North American metals and metalworking industries at what is called "the front line of global industrial behavior." Among the various reasons for this resurgence of North American manufacturing is one key yet little-discussed factor -- the reliance of North American metalworking industries on service centers for just-in-time delivery of specially processed metals. Note: For those of you who don't know, U.S. and Canadian industrial use of metal centers is more extensive than anywhere else in the world.

In fact, North American metals service centers supplied more metal to manufacturing last year than ever before -- 29 million tons of steel and nonferrous metal. That was 35% of all the metal chewed up by metalworking last year. And, even if metalworking use slips a notch or two this year, forecasters see no less than 28 million tons of metals being sourced through distribution.

All the metal-center groupings set shipment records last year -- 27.4 million tons were shipped by members of the Steel Service Center Institute and the Association of Steel Distributors. One (1) million tons were distributed by members of the National Association of Aluminum Distributors. And 600,000 tons flowed from Copper and Brass Servicer Association members.

Shipments from coppermetals service centers this year probably will match 1994 tonnage. Most brass mill and coppermetals service center execs feel that any decline in buying will be gradual as the year progresses, rather than sudden.

SHIPMENTS BY STEEL
 DISTRIBUTORS
 (millions of tons)

'87 23.202

'88	23.501
'89	23.736
'90	23.889
'91	21.705
'92	22.378
'93	24.951
'94	27.446
'95/£	27.172
'96/£	26.900
'97/£	25.555

Ken Hutton of the National Association of Aluminum Distributors is even more bullish, projecting a "healthy growth year". He thinks aluminum center shipments will rise slightly to 2.1 billion-pounds. That may pale with the 15% growth rate logged in 1994, but still enough to make distributors responsible for about 40% of total aluminum supply.

The importance of metals distribution as a sales channel clearly is increasing, Hutton adds. That's why distributors are being called upon to process more and more of the metal that's going right from dock to metalworking machines.

PURCHASING calculates that steel service centers and distributors may ship about a percentage less carbon, alloy, and stainless grades this year. Still, that means that members of the Steel Service Center Institute and Association of Steel Distributors will ship a healthy 27.2 million tons.

In fact, metal center business continues to be driven by a metalworking market economy that's still climbing. And that's flying in the face of the overall economic slowdown engineered by the Federal Reserve. Still, some distributors see clouds on the metals distribution horizon. And some (but not all) are due to the actions of the Fed.

As you all probably know, the Fed was worried that the super-heated 1994 economy would lead to explosive inflation. So, it has raised short-term interest rates seven times since February of 1994. This action has crimped some sectors of the economy. But, there are no clear signs of a widespread manufacturing recession.

And, the metals market has been so hectic lately that some buyers may have missed a structural supply change. Services are expanding. That's because service has become the force for change within metals distribution, according John Rudin of Reynolds Aluminum Supply. He's also the current head of the aluminum distribution association. At that group's recent annual meeting, he told fellow members that there's no doubt that first-level processing nowadays is just a minimum user requirement. He says much more processing will have to come from metal centers in coming months.

He went on to say that inventory management, zero-defect quality, and electronic transaction processing round out the major services that distributors now must provide buyers in order to survive and prosper.

Some metal products simply can't be obtained quickly enough from mills to allow for on-time processing and delivery to end-users, notes Frank Brown of the Copper & Brass Servicenter Association. And, right now, distributors appear to have enough metal to meet buyers' needs.

Copper and brass service centers began 1995 with almost 14% more metal stockpiled compared with the beginning of 1994. Aluminum distributors currently hold an average 2.7 months of supply in inventory, and steel service centers hold about 3.3 months worth of stock.

Remember, the main job of distributors always has been to have the right inventory available for near-immediate delivery. That's been highlighted by metalworking's drive to just-in-time manufacturing, which has pushed even more inventories back to the service center link of the supply chain.

Dave Roland of the Steel Service Center Institute acknowledges that inventories have gone up. But he feels the stockpiles remain in overall balance with the rate of shipments. After all, notes Dudley Bragdon of Copper Exchange Company, it's the distributorships that have to have metal available at the drop of a purchase order.

If you're getting the impression that the metals distribution mart is less than placid, you're right. Whether business slips this year is immaterial to the fact that there are no safe harbors from distribution's sea change toward expanded value-added services. In fact, studies reiterate these facts about the metals distribution market:

1. There is a significant excess of distributors. There are close to 650 firms operating more than 2,000 metals service center locations nationally. That means an enormous duplication of inventory and processing capabilities.
2. Just-in-time delivery and no-inventory programs now are accepted universally by metalworking firms; but, this trend has been accepted only grudgingly by some distributors.
3. Purchasing's clout has grown as lead player in multi-functional buying teams at major metals-buying firms, but many small-volume distributors keep shooting themselves in the foot by looking to sell to personnel they can only describe as "other buying influences".
4. Slimmed-down industrial purchasing staffs are seeking out supply alliances with a small cadre of secondary suppliers.
5. Buyers simply refuse to pay premiums for expected quality or agreed-upon services. They feel that service centers failed to quickly embrace quality movements and such new technologies as electronic data interchange, bar coding and scanning, and on-line order entry.

6. Buyers see "consistent supply and service reliability" as the criterion upon which buying decisions must be made, and keep expanding the use of supplier-performance evaluation audits to gather pertinent supply-base data.

Distribution managers continue to be pressed to provide innovative processing. Lately, buyers also are seeking improved order-intake and billing procedures. Remember that during the last recession, many mills reduced technical staffs during earlier downsizing. So, distributors have been forced to become the front-line soldiers providing buyers with market information, technology updates, new product data, and technical services.

So, many metal centers are trying to differentiate themselves through continuous quality improvement programs, (ISO 9000, and MIL 145208A) capital investments in processing machinery, enlarged inventory, and such value-added services as blanking, cutting to length, sawing, shearing, and slitting. They're also into identification marking, bar coding, skid-packing, interleaving, and exterior bundle protection. Many have added electronic data interchange and facsimile processing.

II. COVER STORY: WHAT ABOUT OPEN DIE FORGINGS?

Specialty steel forging manufacturers are definitely participating in the 1994-1995 recovery in demand for metal parts. After jumping 8.5% in 1994, preliminary forecasts suggests U.S. production of impression - die and open - die forgings will increase another 5% this year to a record 1.32 million tons. PURCHASING estimates buyers will spend a record \$4.15 billion this year on steel forgings. Market sources report that open-die steel forgings have become very popular with buyers in recent months. Reason: Expanded use by automobile, truck, truck trailer, and railroad car producers, plus a recovering commercial aviation industry. That's not to mention booming production of farm and garden machinery, and machine tools. Leadtimes from independent open-die forgers are running 20-30 weeks, longer if the supplier is tied to automotive or aviation parts production. Some steel mills are quoting six months, and delivering in twelve. Little wonder that buyers are searching out the services of open die forge shops to supply products in quicker than normal mill delivery. Typical 6 to 8 week forging deliveries are available and even quicker deliveries for premium prices.

III. METAL CHIPS: SURPRISE! THE STAINLESS STEEL MARKET IS ABLAZE

The stainless steel market -- the hottest metals arena right now. The strength of the industrial economy has caused an eruption in demand for stainless steel sheet that shows little sign of a major slowdown. For example, Claude Kronk tells us the shipments by his firm, J&L Specialty Steel in Pittsburgh, are close to 30% stronger so far this year. He says the current order book is very strong, and is optimistic about additional improvement ahead.

Now, you might expect a stainless CEO to say things like this -- except the statistics bear out his bullishness. Sales of corrosion-resistant steels continue to zoom. New data shows that North American end-use actually grew a surprising 15% last year. That brought consumption to 2.4 million tons -- exactly twice the amount used four years earlier.

Stainless use so far this year is growing at an 8% annual rate. And, since European and Asian use also is rising this year, there's been a decline in imports here. The upshot, naturally, is tightened mill supply and extended mill leadtimes. Analyst Bob Hageman at Oppenheimer & Co. now believes end-use and service center buyers will find stainless mill supply quite tight well into 1996.

The explosion in stainless demand has caught the analysts flat-footed. It now looks as if stainless use will reach 2.6 million tons this year. Back in January, the metal mavens back then didn't see that level being reached until at least 1996.

From what we can gather from market sources, end-use demand for specialty steel is widespread. Sales are solid to makers of automotive exhaust systems, jet airliner parts, and components used by the various process industries.

Also strong are shipments to makers of corrosion-resistant parts for all kinds of heavy machinery, concrete reinforcements and other construction components, industrial fasteners, commercial and consumer cooking equipment, energy and water pumps, and petroleum drilling equipment.

In fact, the Duff & Phelps industrial credit rating company in Chicago says that the fundamentals for the entire specialty steel business continue to be strong. And they are particularly taken with the end-use demand for stainless flat-rolled steel. Duff & Phelps says demand and pricing fundamentals in key stainless markets remain positive. Duff & Phelps suggests the potential of a downturn in the specialty steel markets -- but not until the latter months of 1996.

Chuck Bradford, an analyst at UBS Securities, contends that the recent double-digit consumption growth in North America implies an upward change in long-term usage trends. He says cost-benefit analyses by users show stainless to be an economical total-cost material.

STAINLESS STEEL USE	
(thousands of tons)	
90	1179
91	1671
92	1826
93	2102
94	2417
95/f	2611

It's not surprising, therefore, that stainless has become a very hectic market for the service centers.

Remember that at least half of all stainless and other nickel-bearing specialty alloys reach end-use buyers thru distribution.

According to Steel Service Center Institute data, stainless shipments are more than 20-percent healthier than this time last year. The statistics also show lengthening leadtimes from the distributors. They may have closed 1994 holding almost 4 months' of supply. But now, they've got less than 3 months' worth in stock.

That's probably why producers are confident that price increases announced for various times during the second and third quarters of 1995 will take hold and allow them to offset rising costs of stainless scrap and alloying metals.

Bradford, however, suspects that big price increases for specialty steels may be largely over -- except for alloying surcharges. He explains that some mill execs are coming to understand they could negatively impact long-term growth rates by being greedy in the near term.

IV. METAL CHIPS: WATCH FOR CHANGES IN SHEET STEEL SUPPLY

Manufacturing demand continues to absorb all the carbon and stainless sheet steel the mills can ship, and then some. After years of losing market share to other materials, flat-rolled steel now is maintaining a healthy competitive position against them. In fact, a new survey of steel purchasers in key consuming industries, says U.S. and Canadian mills are among the highest quality products available from any source worldwide.

That's probably why sheet mills are continuing to run at full capacity through the first half, according to Andy Sharkey of the American Iron and Steel Institute. So, even if end-use markets stall a little in the second half of 1995, the full-year strength in flat-rolled demand appears assured. Forecasters still suggest that North American manufacturing again will use more than 70 million tons of sheet steel. While some people worry about the steel economy, market analyst Tom VanLeeuwen of CS First Boston now maintains that North American use of flat-rolled steel won't fall much next year either.

He says heavy manufacturing and consumer durables have orders booked so far ahead that sheet steel rolling mills will be busy for months ahead. If that pans out, leadtimes will stay extended for some time to come. That's a near-term issue. Longer-term, buyers also better pay attention to major changes coming to the sheet-steel supply base.

PaineWebber's Peter Marcus is rather flamboyant in saying the flat-rolled market is becoming the site of a dramatic supply battle between the integrated mills and the electric-furnace mills. From our perspective, sheet buyers could be the big winners. This added capacity, after all, will enlarge the base of cost-efficient suppliers.

What's happened is a technological revolution that has permitted the mini-mills to invade the flat-rolled supplier role that once was the undisputed realm of the integrated mills. Right now, slightly more than 6 million annual tons of mini-mill sheet capacity are in operation -- including Gallatin Steel's brand-new plant. And, it now looks that as much as 10 million tons of even more sheet capacity is coming from these scrap-fed mini-mills. Close to the start of this decade, the mini-mills supplied just 5% of sheet supply. Analysts think mini-mills will control 21% of sheet supply by the end of this decade, leaving the rest to integrated mills and importers.

In fact, the market share of the major mills has slipped to 41% in 1994 and PaineWebber's Marcus looks for the major mills' share to fall to 29% by 2000. By then, just a decade after the mini-mills began rolling commodity sheet, we look for the mini-mills to be making ultra-thin hot-rolled sheet and high quality automotive-grade cold-rolled sheet steels.

V. PURCHASING FOCUS: SUPPLY-CHAIN MANAGEMENT WILL CHANGE

Did you know that key purchasing executives at some of the world's leading companies now believe that successful corporate supply chain practices, by the year 2005, will be dictated by customer demand for made-to-order, specialized products, the explosion of communications-related technologies, and the evolution of the world into three major trading blocs?

Supply-chain management involves personnel from purchasing, materials management, logistics, and production executives from a diverse group of companies. According to Tom Day, a Director of the Arthur D. Little's Management Consulting business -- "Supply chain management is the business process that lies at the heart of corporate competitiveness." That's because there's growing awareness of critical external and internal influences now emerging that will affect supply chain organizations a decade from now.

First, there's the fact that corporate boundaries will be blurred. It will be essentially impossible for companies to compete as isolated entities. It is more likely a coordinated network of companies will compete against other networks of companies. What they're talking about are tight alliances of suppliers, distributors, retailers, manufacturers, and other support providers.

Also, user demand expectations will drive made-to-order products with rapidly shrinking leadtimes. Products, parts, and components will come configured as manufacturing and end-users want them. They will come with high levels of reliability, excellent quality, and longer life-spans. People won't buy as many raw materials; instead, manufacturing buyers will be sourcing more "bundled" components and parts -- similar to what's already happening in electronics.

Then there's the view that there will be three major global trading blocs: Europe, Asia, and North and South America. Trade within and among these blocs will push future supply-chain management into wider geographic areas of sourcing and distribution.

More parts and products consumers from China, India, Southeast Asia, and Latin America will have a huge impact on the supply chain. North American companies will have to provide a variety of products to meet different manufacturing and cultural needs, yet all at a low price and quickly.

The explosion in technology will have an impact on all aspects of the supply chain, from the tools available to make decisions to the automation of materials management and delivery processes.

So, in a nutshell, the supply-chain process will change from its traditional, hierarchical structure to a more "virtual" framework.

Arthur D. Little's Tom Day asserts that by 2005, the sharing of the best information among the best people will be critical. Active participants in the supply chain that we contacted agreed with him. They predict the best supply-chain practices will have the following characteristics:

1. The ability to source raw material or finished goods from anywhere in the world.
2. A global business and management strategy with flawless local execution.
3. On-line, real-time distributed information-processing in every manager's desktop PC, providing total supply-chain data worldwide.
4. The ability to manage information not only within a company but across total enterprises.
5. The seamless integration of such supply chain processes as third-party supply, information systems, cost-accounting standards, quality measurement systems, and fiscal-control systems.
6. The capability to manage outsourced supply and materials management.
7. The implementation of activity-based costing that links cost to performance, and is used as a real tool for cost reduction, going well beyond today's functional cost-reduction efforts.

That's all for this edition of Metals Watch!

In our next edition, COVER STORY will present: "**Advances in Steel Manufacturing and Processing Technology**".

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